

## Market Action

On April 23, 2023, Datadog (NASDAQ: \$DDOG) – a leading monitoring and security platform for cloud applications – announced the definitive acquisition of privately-held Codiga – a platform for static software code analysis.

Terms of the deal were not disclosed. With fewer than 10 employees, Codiga has raised just over \$2m in seed investment since graduating from the 2019 faculty of renowned Boulder, CO accelerator, TechStars. Notable seed investors include Datadog CEO and Co-founder, Olivier Pomel.

On May 4th, all Codiga products will be shut down, and outstanding subscriptions refunded. All Codiga employees will be offered positions at Datadog.

## Deal Rationale

Strategically, Codiga fits well into Datadog's broader Observability focus on enabling Product and Service Owners – key customer personas in modern Cloud, Agile, DevOps, and SRE teams – to capture all the signals they need – in dev, test, and prod - to build, deliver, secure, and run better software services.

Functionally, the technology acquired from Codiga will build on Datadog's existing integrations with 'Continuous Integration/Continuous Delivery (CI/CD) pipeline providers (like Jenkins and Github), and solutions for Continuous Testing, CI/CD Observability, Real User Monitoring, and Synthetic Monitoring. It will enable 'shift left' for even more 'first-class' contributors in the Software Development Life Cycle (SDLC), adding capabilities for Quality Assurance teams, extending existing capabilities for Dev and Ops.

With origins in Cloud Infrastructure Management and Operations Management, and a customer-led product vision, this continues Datadog's push to extend the boundaries of 'shift left'. As its customers seek to make better data-driven decisions earlier in the software delivery timeline, so too Datadog is shifting Observability left and expanding so-called 'O11Y' to new personas and teams throughout the Software Development Lifecycle.

Given the valuation, economics, and in-house investors, Sageable sees this as a financially expedient exit for Codiga, and a technology and talent tuck-in for Datadog. We do not expect it to contribute significant new customers or revenue since all Codiga products and subscriptions are immediately at 'End-of-Life'.

## Competitive Impact

In Codiga, Datadog has acquired additional technology to address not just development or operations, but also critical new personas in testing and quality assurance. As Datadog seeks differentiation in the highly competitive Observability market, Codiga provides unique functionality in this space to improve visibility into end-to-end DevOps team processes, overcoming major blind spots left by key competitors.

Datadog therefore has an opportunity to provide relief from inefficient 'swivel-chair' workflows for key personas in the SDLC with integrated experiences that fulfill the core DevOps promise – improving collaboration, communication, and integration across the SDLC to deliver better software, faster.

Unlike most competitors, with this technology Datadog will be able to collect and analyze real-time data from logs, traces, and metrics from production services; apply additional non-intrusive APM capabilities like synthetic transaction monitoring and real user monitoring; and integrate all these production signals back into pre-prod quality assurance and testing frameworks to ensure consistency across dev and ops.

## Risk Analysis

This deal does not come without downsides. As with all M&A, there is potential for slower feature development as feature teams are reassigned to integration; more technical debt as expedient product decisions are made;

and reduced budgets for ‘build vs buy’ opportunities. This is balanced somewhat by the newly acquired technology and talent to deliver new features and contribute to new development.

However, Datadog expects a rapid integration, citing a track record with acquisitions like Logmatic – acquired September 2017, integrated and shipped March 2018; and says the team of domain experts from Codiga will quickly be a “part of the Datadog family ... enthusiastic and excited to step on the gas”.

In other risk, Static Analysis is not a greenfield market, so continuing to move into this space raises competitive pressure and will likely harm relationships with current partners (like SonarQube or Fortify) who will surely sour on partnering with an increasingly aggressive and expansionary competitor.

By far the biggest downside risk is to satisfaction and retention of Codiga customers. It is unclear why Datadog is immediately EOL’ing all Codiga products and subscriptions, but Sageable expects current Codiga customers will – and absolutely should – take this forced opportunity to find new alternatives.

## Future Opportunities

While the functionality acquired from Codiga will soon fill out a reasonably comprehensive offer for Datadog, this does not complete its strategy. Datadog sees a future where it offers even more functionality for dev-test use cases and personas, including planned forays into both Interactive Security Testing (IAST) and Test Impact Analysis (Datadog Intelligent Test Runner is currently in beta).

Adding to a substantial cybersecurity portfolio, Codiga also opens new opportunities for Datadog to continue ‘shift left’ by integrating security observability capabilities earlier in the SDLC, to further bolster Datadog’s already formidable offers for DevSecOps use cases. However, Datadog did not commit to a timeline for future deliverables, but will “have announcements soon”, so “stay tuned for more updates.”

## Sageable Insight

With this acquisition, Datadog has the technology to take the blinders off static test management, connect it to the rest of the SDLC, and create exceptional visibility into software quality to help customers accelerate software delivery, drive higher quality, and improve their customers’ experience.

By capturing static analysis data in real time – even as tests are still running – customers will be able to react to quality issues faster, remediate any ‘flaky tests’, instrument test frameworks more effectively, identify and resolve testing delays, and drive continuous improvement in code quality, feature lead-time, estimate accuracy, and DevOps efficiency, to deliver better customer experience and satisfaction.

As a result, this acquisition will enable exciting new opportunities, especially for DevOps teams, to ‘shift left’ with additional functionality to drive visibility and understanding across the entire SDLC, from idea to cash, from estimate accuracy to testing efficacy, from code quality to production performance. By extending ‘pre-prod’ integrations and enriching existing testing frameworks with production data, this new tech will help Datadog customers to complete the otherwise highly elusive ‘DevOps feedback loop’.

The immediate End-Of-Life for all Codiga products and subscriptions will likely drive significant Codiga customer churn; and a new competitive position will likely cool relationships with Datadog’s existing static analysis partners. However, given the scope of this transaction, Sageable believes these risks are not significant, and so will not have material negative impact on Datadog or its own existing customers.

This is a smart acquisition and logical progression by Datadog, which continues to draw sharp lines to differentiate from key competitors, by putting together distinctive technology, into uniquely functional solutions, to solve discrete use cases for a range of under-served personas in Agile and DevOps teams.